in The Know

Autumn 2022

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Truss signals big changes ahead

We are heading into an autumn dominated by headlines about the cost of living crisis, being driven by energy and food prices. We know now that the new prime minister will be Liz Truss.

In what looks like a swift reversal of many of the previous government's policies, she has already indicated that she will reverse the National Insurance rise of 1.25%, and stick to the current corporation tax rate of 19%. There have also been reports that she is considering raising the basic rate tax threshold to £80,000, and cutting VAT.

Given the high cost of Covid support, and possible intervention in energy costs at eye watering levels of expenditure, presumably no government could balance the books solely by cutting taxes on income.

In the absence of spending cuts this leaves other taxes to replace any shortfall; will this bring the already talked about capital tax changes sharply into focus, with potentially significant implications for holders of agricultural land and property?

For farmers, the sound of deregulation might appear attractive, but as the architect of the trade deals with New Zealand and Australia, will it provide benefit in the long term?

Over the next few weeks we will learn much more about how Liz Truss will govern, rest assured Dodd & Co will keep you up to date of any changes which might impact your business, starting with the expected emergency budget shortly.

By Rob Hitch

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New VAT Penalty Regime

Do you rely on having a VAT repayment and therefore don't always file your VAT on time? If so, the new VAT penalty regime may leave you facing penalties, so please read on.

Sam Bell
Chartered Accountant

The new points-based system is set to be introduced for VAT return periods starting on or after 1 January 2023, replacing the current default surcharge system. The current default surcharge system is calculated based on a percentage of the VAT liability. However, farmers mainly have VAT repayments rather than liabilities, meaning there are generally no penalties for late submission.

How does the new points-based system work?

If you miss a filing deadline you will receive a 'point' and will be notified of this by HMRC. Once you meet the threshold of points (two if you submit annually, four if you submit quarterly or five if you submit monthly) a financial penalty of £200 will be charged, plus a further £200 penalty for each subsequent late submission.

Points have a lifetime of 2 years and after this they will expire, unless you are at the penalty threshold, in which case a period of compliance must be met to reset the points.

There are also new rules for a late VAT payment, which you should be aware of. If you find yourself in the position of making a VAT payment, for example due to selling machinery or having contracting sales, then making sure your payment arrives with HMRC on time is key.

No penalty will be payable if the VAT liability is paid within 15 days of the due date.

From day 16 late payment penalties will be applied as follows:

- Penalty one - 2% of the outstanding VAT – applied when payment is made between day 16 and day 30
- Penalty two – 2% of the outstanding VAT at day 15 plus 2% of the outstanding VAT at day 30 – applied on any VAT unpaid after day 30
- Penalty three – 4% per annum, calculated on the daily total unpaid tax – incurred from day 31

If you are in a position where you are unable to pay your VAT then please contact HMRC before the VAT is due, in order to arrange a 'Time to Pay' agreement. If you have any questions or concerns, please speak to your usual Dodd & Co adviser.

An update on
INFLATION

On 4 August 2022, The Bank of England announced that the Monetary Policy Committee had decided to increase the base interest rate from 1.25% to 1.75%, in a bid to tackle high inflation and the increasing cost of living.

But what is their logic behind this method? By increasing interest rates (in theory), this should discourage consumers from borrowing and spending, which in turn will reduce the demand for goods. When there is less demand, shops will try and encourage more spending by reducing the costs of goods, subsequently reducing the cost of living and eventually, inflation.

A major factor in the increase of inflation is high energy prices, the costs rocketed as economies around the world reopened after the Covid lockdowns, further exasperated by the war in Ukraine.

The Bank of England also announced:

- Prices: Inflation expected to peak at around 13% in Quarter 4, currently sitting at 10.1% at the time of printing this article
- Recession: UK economy expected to enter recession from Quarter 4

Sarah Jackson
Independent Financial Adviser

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So what can you do in these peculiar times?

For any lump sums currently sat in cash at the bank, consider when this money will be called upon. If not required for the short term, these monies can perhaps be invested outside of cash to try and achieve some 'real growth'. In other words, whilst inflation is so high and the interest rates on cash savings is so low, the future purchasing power of this money is reducing. As an example: if inflation is currently at 10.1% and your cash is currently receiving 1.5% interest, the difference of 8.6% is where the money is losing its value. By investing in a diverse portfolio, we can attempt to maintain the monies real value, however this normally comes in exchange for an element of capital risk.

At Dodd Wealthcare we strongly believe in a 'not putting all of your eggs in one basket' approach. Instead, we will carefully align your risk views against tailored investments to create a portfolio in line with your personal circumstances and goals. So rather than having all your 'eggs' in cash, we can invest in a diverse portfolio across various asset classes, to attempt to preserve the purchasing power of your money.

To start your journey and preserve the value of your money, contact Dodd Wealthcare on 01228 530913.

Where does all my cash go?

Farmers are experiencing increasing cashflow pressures as inflation in agriculture rose to 23.5% in July 2022, according to Andersons . This saw input costs continuing to surge at a faster rate than output prices. When comparing agricultural inflation to the current annual inflation rate in the UK (which rose to 10.1% in July 2022), it is easy to see why the agricultural sector is suffering more than other industries, at more than double the general UK rate.

To combat against this, on 6 May 2022 Defra and the RPA announced that direct payments of the Basic Payment Scheme (BPS) in England would be made in two equal instalments. The Government hoped that bringing forward half of this year's BPS payment would give farm businesses an advance injection of cash, which would not affect farm profitability, to help farmers to make business decisions with more confidence and pay the increasing bills as they fall due this Autumn.

The RPA also confirmed that this new method of payment would be here to stay for the remainder of the agricultural transition period, up until 2027. This includes future BPS payments and delinked payments when introduced in 2024.

In most cases, the first of these two equal instalments have now been paid with many having received this in the first fortnight of August and the remainder of the payment to follow in December. Farmers in Scotland will receive most or all of their BPS payments in October, with any balance due being paid in December. This is quite the change from receiving the full payment at the start of December, which had been the way for many years with farmers getting used to and having sufficient plans to cope with. Although a welcomed boost to cashflow, this is somewhat a small silver lining as 2022 BPS payments are seeing a reduction of between 20% to 40%.

It is also worth noting that other organisations such as Arla have adopted a similar method of splitting annual payments. Starting this year they will be paying their 13th milk payment in two instalments; a mid-year payment in September followed by an end of year payment as usual, instead of passing it to producers in total at the end of each milk year.

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Struan Kyle
Chartered Accountant

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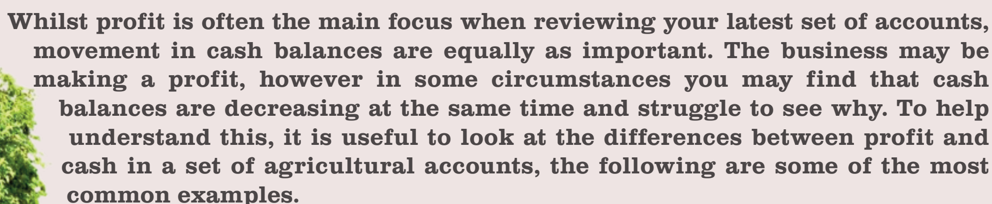
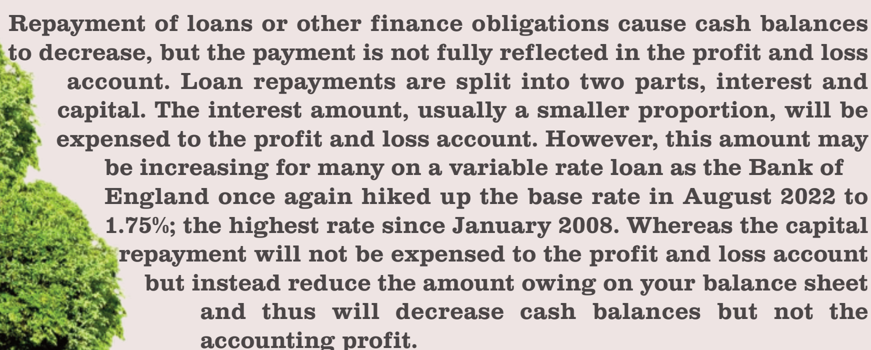
The difference between profit and cash

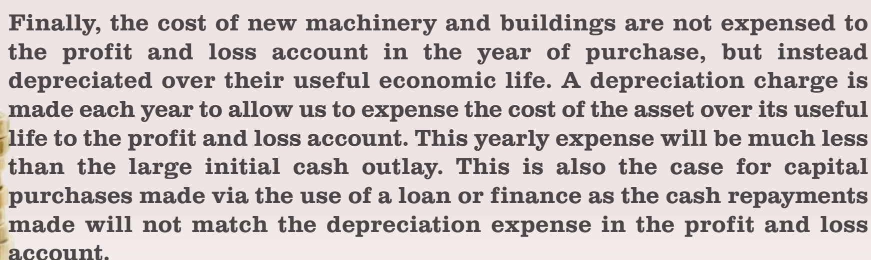


Whilst profit is often the main focus when reviewing your latest set of accounts, movement in cash balances are equally as important. The business may be making a profit, however in some circumstances you may find that cash balances are decreasing at the same time and struggle to see why. To help understand this, it is useful to look at the differences between profit and cash in a set of agricultural accounts, the following are some of the most common examples.

Movement in the values of your opening and closing stock from the start of the year to the end is one of the main reasons. For example, if your closing livestock is valued higher than it was at the start of the year, this will increase your accounting profit but not your cash balances. Currently, many farmers are experiencing an increase in closing stock values in their accounts as input costs increase and thus the resulting selling price increases. Also, growing businesses that are increasing their livestock numbers may find that their cash balances decrease during the year because it is not just the valuations which affects the closing stock in the profit and loss account, but also the movement in numbers.



Repayment of loans or other finance obligations cause cash balances to decrease, but the payment is not fully reflected in the profit and loss account. Loan repayments are split into two parts, interest and capital. The interest amount, usually a smaller proportion, will be expensed to the profit and loss account. However, this amount may be increasing for many on a variable rate loan as the Bank of England once again hiked up the base rate in August 2022 to 1.75%; the highest rate since January 2008. Whereas the capital repayment will not be expensed to the profit and loss account but instead reduce the amount owing on your balance sheet and thus will decrease cash balances but not the accounting profit.



Finally, the cost of new machinery and buildings are not expensed to the profit and loss account in the year of purchase, but instead depreciated over their useful economic life. A depreciation charge is made each year to allow us to expense the cost of the asset over its useful life to the profit and loss account. This yearly expense will be much less than the large initial cash outlay. This is also the case for capital purchases made via the use of a loan or finance as the cash repayments made will not match the depreciation expense in the profit and loss account.

Cashflow will remain at the forefront of farmers' minds this Autumn and forward planning will be vital. Cloud Accounting software will continue to be a very useful tool, as it will allow farmers to plan their future cashflow with the use of budgetary tools and comparative figures within the software.

If you have any questions or concerns, Dodd & Co are always on hand to help.

Land & Property

Relaxation of CGT Rules on Divorce

Going through a divorce can be one of the most stressful periods of a person's life. Dividing up the matrimonial assets can be one of the most difficult aspects to deal with, and one aspect that has always seemed very unfair is the possibility of a Capital Gains Tax (CGT) liability arising as a result of transfers of property between two parties to a divorce.

As things stand, any transfers of property between spouses who are living together take place on a "no gain no loss" basis, meaning the asset passes at cost for CGT purposes, and any gain is deferred until the asset in question is sold. When a married couple separate, this favourable CGT treatment continues to apply throughout the tax year of separation. After that, the parties remain 'connected' for CGT purposes (meaning transfers are deemed to take place at market value) until the divorce is finalised. In reality, the process of agreeing a division of assets will take a significant length of time, meaning transfers will usually take place after the end of the tax year of separation, resulting in CGT liabilities (due to the deemed market value disposal rule) – talk about kicking somebody whilst they are down!

It is therefore very welcome news that the Government have announced that the rules will be changed for transfers on or after 6 April 2023. From that date, all transfers of assets between the two parties will take place on a "no gain no loss" basis until the earlier of:

- The end of the third tax year following the tax year of separation
- The date when the divorce is finalised

Jonathan Ridley
Tax Partner

Furthermore, where transfers are made as part of a formal divorce agreement or court order, the "no gain no loss" treatment will continue to apply indefinitely.

These changes will come too late for some couples who have already transferred assets or who will be compelled to transfer assets before 6 April 2023, but going forward the changes will be extremely helpful for divorcing couples and an unwanted CGT liability will be one fewer thing to worry about.

If you have any questions regarding Capital Gains Tax, please speak to your usual Dodd & Co adviser.

Research & Development Corporation Tax Relief

does your company qualify?

Many of you may have heard of Research and Development (R&D) tax reliefs and perhaps even been approached by a firm of R&D specialists offering, in exchange for a commission-based fee, to produce a report to enable your company to make a claim. The relief works by deducting an extra 130% of the qualifying costs from your taxable profit (giving each cost a 230% deduction) and reducing the amount of corporation tax due, or if the company is loss making, then a tax credit of 14.5% can be claimed on the expenditure (subject to a cap based on the amount of the company's PAYE bill for the period in question).

In order to make a claim for R&D tax relief then you need to have a company (sole trader and partnership businesses do not qualify) that is doing a unique project to develop something new or significantly improve an existing system/process. It is key to ensure that the work done has not already been conducted by another business and that the results are not publicly shared (an online search should help determine this). It is also critical that a competent professional in that field could not readily determine how to achieve the project's objectives. HMRC will also look at the existing benchmark for that product or process to make sure that your project has "significantly improved" what is already available.

Qualifying costs include staff costs and consumables being used up in the project. However, if the company goes on to sell items produced in the course of its R&D projects, then the cost of consumables that have gone into those products cannot be included as qualifying R&D expenditure. It is therefore very important to identify and exclude any expenditure that is then used to make sales later down the line.

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Lisa Crichton
Chartered Accountant

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R&D credits are a great way for innovative businesses to gain tax reliefs and the Government is still keen to support R&D projects, even mentioning it in the 2021 Autumn budget. However, HMRC are currently tightening up on inspections and opening up more enquiries into the claims at the moment, halting tax refunds until potential fraudulent claims have been investigated and introducing new procedures in April 2023 to tighten up compliance.

We have seen claims in the farming sector having to be repaid with queries over whether the projects, or the costs included, actually meet the R&D criteria.

If you are currently making a claim with one of the specialist R&D operators you need to be completely comfortable with what is being claimed and why. They may be less prudent over what should be included as qualifying costs and R&D projects than they should, but if so, you will be the one having to justify these expenses to HMRC or perhaps even having to repay some of the tax relief, as we have already seen happen in recent months.

If you are uncertain on whether or not you can qualify, Dodd & Co are here to help!

Meet your Farming Partners

Left to right: Joanne Thomlinson, Robert Wharton, Andrew Sims, Rob Hitch and Jonathan Ridley

If you would like to sign up to regular industry updates from the Dodd & Co farming team please email hello@doddaccountants.co.uk

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